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IDENTIFICATION OF NEW TRADING OPPORTUNITIES ARISING FROM THE IMPLEMENTATION OF THE URUGUAY ROUND AGREEMENTS IN SELECTED SECTORS AND MARKETS

An analysis of trading opportunities resulting from the Uruguay Round in selected sectors: agriculture, textiles and clothing, and other industrial products

Report by the UNCTAD secretariat

A statistical annex, issued separately (in English only) as an addendum to this document (TD/B/WG.8/2/Add.1), contains the tables to which reference is made in the text.

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CONTENTS

Chapter		Paragraphs
	INTRODUCTION	1 - 2
I.	Agriculture	3 - 28
	A. Main elements of the Agreement and the nature of commitments	4 - 14
	B. Trading opportunities arising from the Agreement	15 - 28
II.	Textiles and clothing	29 - 56
	A. Main elements of the Agreement	30 - 32
	B. Trading opportunities arising from the main provisions of the Agreement	33 - 52
	C. Measures and issues that may affect the effective implementation of the Agreement	53 - 56
III.	Other industrial products	57 - 76
	A. Principal elements of the Uruguay Round affecting industrial products	59 - 62
	B. Commitments affecting market access for industrial products	63 - 72
	C. Remaining problems in industrial sectors	73 - 76
IV.	Conclusions and recommendations	77 - 90

INTRODUCTION

1. In accordance with its mandate, the Ad Hoc Working Group on Trading Opportunities in the New International Trading Context is requested, inter alia, "to identify new trading opportunities arising from the implementation of the Uruguay Round agreements, in particular sectors and markets, with a view to enhancing the ability of developing countries, in particular the least developed countries, and countries in transition concerned to take full advantage of such opportunities." Its terms of reference also provide that the Group "shall take into account, in particular, the Board's in-depth analysis and assessment of the outcome of the Uruguay Round". In this connection, reference is made to the Agreed Conclusions of the Board, at the first part of its forty-first session, on the outcome of the Uruguay Round. Governments agreed, inter alia, that there was a need for more policy analysis, particularly in identifying the problems and opportunities for developing countries in key sectors such as agriculture, textiles and clothing and services, with a view to making concrete proposals; and that this work should lead to a better understanding of problems and identification of opportunities at the national level.

2. This report, which focuses on trade in goods, is intended to assist the Ad Hoc Working Group in its deliberations. Analysis of trading opportunities in the agricultural, textiles and clothing, and other industrial sectors, are presented in chapters I, II, and III. Chapter IV brings together the main conclusions to be drawn regarding trading opportunities at this stage of the implementation of the Uruguay Round agreements and points to unresolved issues.

I. AGRICULTURE

3. The Uruguay Round Agreement on Agriculture provides a general framework of rules and disciplines to govern trade in agriculture, as well as for future reform through substantial and progressive reductions in agricultural support and protection over an agreed period of time.[1] This section contains a preliminary assessment of market opportunities arising from the implementation of the Agreement. As much information is not yet available on policy measures to be adopted by Governments in conforming to their obligations under the Agreement, the analysis presented here is based primarily on the information contained in the Schedules of Concessions in the Marrakesh Protocol and the implementing legislation of some of the major trading countries, as well as guidance provided by the agreed "Modalities".[2]

A. Main elements of the Agreement and the nature of commitments

4. The principal elements of the Uruguay Round Agreement relate to commitments on market access, export subsidies and domestic support (see box 1). Countries are to implement their commitments based on the calendar, financial or marketing year as specified in their Schedules. The implementation period began with the entry into force of the World Trade Organization (WTO) Agreement on 1 January 1995. Developed countries have six years (ending in the year 2000/2001) and developing countries have 10 years (ending in the year 2004/2005) to implement their commitments. Negotiations to continue the reform process will be initiated one year before the end of the implementation period for developed countries (i.e. in 1999). The Agreement on Sanitary and Phytosanitary Measures complements the Agreement on Agriculture and is supportive of its objectives.

5. If implemented in accordance with the letter and spirit of the Agreement, the commitments in each of the three areas of market access, export subsidies and domestic support should in principle contribute to an expansion of market opportunities at the global level. For example, a reduction in domestic support can be expected to reduce high-cost domestic supply, which could have one of two effects: a reduction in the supply available for exports, or an increase in import demand. Also, a reduction in export subsidies should increase the opportunities on world markets (in terms of volume and/or prices) for non-subsidizing exporters. Finally, access commitments in terms of specific tariff quota commitments provide an assured access to markets, the reduction of existing

BOX 1: MAJOR ELEMENTS OF THE AGREEMENT ON AGRICULTURE - A SUMMARY

Market access

- ***Base period***: 1986-1988.
- ***Implementation period***: 1995-2000
  - commitments on access to be implemented in equal annual instalments.
- ***Tariffication of NTMs***
  - ***Special treatment clause***: no tariffication of NTMs for certain products - valid during the implementation period[1/].
  - ***Safeguard provision***: for tariffied products only - valid during implementation period.
- ***Reduction of agricultural tariffs*** (including those resulting from tariffication) on a simple average basis by 36 per cent (with a minimum reduction of 15 per cent per tariff line).
- ***Minimum access commitments***: 3 per cent of domestic consumption in the first year, rising to 5 per cent by end of implementation period.
  - for non-tariffied products; initially 4 per cent, rising to 8 per cent by end of implementation period (6 years);
  - for such products if a predominant staple in the traditional diet of a developing country; initially 1 per cent, rising to 4 per cent by end of implementation period (10 years).
- ***Current access guarantee***: maintenance of current access opportunities (i.e. the quantity of imports in the 1986-1988 base period) which exceed the minimum access.

Export competition

- ***Base period***: 1986-1990.
- ***Implementation period***: 1995-2000.
  - Flexibility in the implementation of reduction commitments[1/].
- ***Reduction of outlays on export subsidies***: by 36 per cent of base period level - initial cut of at least 6 per cent in first year of implementation period and thereafter in equal annual instalments.
- ***Reduction of quantity of subsidized exports***: by 21 per cent base period level - initial cut of at least 3.5 per cent in first year of implementation period and thereafter in equal annual instalments.
- ***Non-circumvention of commitments***: Undertaking not to circumvent export subsidy commitments by means such as tying food aid to commercial exports, etc.; internationally agreed discipline to govern export credits, export credit guarantees or insurance programmes are to be developed.

Domestic support

- ***Base period***: 1986-1988.
- ***Implementation period***: 1995-2000
  - commitments on reduction to be implemented in equal annual instalments.
- ***Reduction of total AMS***: (comprising both product-specific and non-product-specific AMS) by 20 per cent.
- ***"Green box" measures***: exempted from inclusion in calculation of total AMS (to be reduced).
- ***Payments under production - limiting programmes***: exempted from reduction commitment if they are on the basis of fixed area and yields (or number of head for livestock), or on a maximum of 85 per cent of the base level of production.
- ***De minimis provision***: exempts from reduction commitments AMS which does not exceed 5 per cent of the value of production of a basic product (in the case of product-specific support), or of the value of total agricultural production (in the case of non-product-specific domestic support).

Due restraint ("peace clause") provision - valid during the implementation period:

- "Green box" policies (in conformity with Annex 2 of the Agreement) are non-actionable for purposes of countervailing duties and other GATT challenges;
- All domestic support measures in conformity with the Agreement, including direct payments under production-limiting programmes as well as within the de minimis levels, are exempt from the imposition of countervailing duties as long as they do not cause injury or the threat thereof, and are also exempt from other actions under the GATT so long as support to specific commodities do not exceed that decided in 1992;
- Export subsidies within the constraints of the agreement are exempt from challenges under the GATT and subject to countervailing duties only if they cause injury or the threat thereof.

S & D provisions: Reduction commitments for developing countries are two-thirds of those applying to developed countries. LDCs are not required to undertake reduction commitments. Developing countries have the flexibility of up to 10 years (i.e. to 2004) to implement reduction commitments.

1/ (i) Cuts in export subsidies may begin from the 1991 to 1992 average if higher than the base period level but must be reduce to the final commitment levels by end of the implementation period in equal annual instalments; and (ii) export subsidies in any year may exceed the corresponding annual commitment levels provided that such subsidies on a cumulative basis (from the beginning of the implementation period to the year in question) do not exceed by more than 3 per cent in the case of outlays and more than 1.75 per cent in the case of quantities the corresponding commitment levels (on a cumulative basis) specified in the country's schedule.

1/ The other exceptions to the general requirement of tariffication are: (i) cases in which countries can invoke any general, non-agriculture-specific provisions of GATT 1994, such as for example the balance-of-payments provisions; and (ii) the special treatment for LDCs which exempts them from undertaking reduction commitments.

tariffs can provide access opportunities, and the tariffication process has resulted in the binding of all agricultural tariffs.

6. The reduction commitments on domestic support, which refer to agriculture-sector-wide levels of support and not to individual commodities, are indicated for each year, from 1995 to the end of the implementation period, in the Schedules of concessions of those 24 WTO Members for whom reduction in domestic support is required. As the Aggregrate Measurement of Support (AMS) reduction commitments are not product-specific but sector-wide, it is not possible to predict how the implementation of this commitment will affect the domestic support for, and hence the domestic supply of, specific products. In fact, the formulation of this commitment makes it possible to shift support among different products, thus permitting the application of much lower reductions to certain sectors (possibly combined with deeper reductions for products such as perishable foodstuff which do not move easily in international trade), while at the same time satisfying the annual AMS commitment levels contained in the schedules.

7. Export subsidy reductions in terms of volume and budgetary outlay commitment levels for each year from 1995 to 2000 (2004) are also specified in the country Schedules of concessions. The use of export subsidies (as defined by the Agreement) on products which are not subject to reduction commitments is prohibited under the Agreement. In assessing the impact of the commitments on export subsidies, there are three main problems. First, a number of countries have taken advantage of the option noted above of starting to make reductions from the higher subsidized levels of 1991-1992 rather than the 1986-1990 base. Thus, because of the use of this so-called "front-loading" option, in some cases the maximum allowable subsidized exports in the initial years of the implementation period will actually be greater than subsidized exports during the base period. Secondly, the product specificity of commitments is unclear in those cases where outlay and quantity commitments were allowed to be established for groups of products rather than at the six-digit HS level (e.g. coarse grains, oilseeds, vegetable oils, live animals, fruit and vegetables).[3] Thus, it is uncertain how the commitments will affect individual products where they have been grouped together in the commitments. Lastly, since there are no restrictions on how the remaining allowable subsidies can be used across markets, it is unclear to which markets subsidized exports will actually be reduced, or whether a sequential targeting of markets could not occur. In fact, the "Modalities" foresee the possibility of negotiations with respect to export subsidies within product categories.

8. The market opportunities provided by the commitments on export subsidies will arise from the fact that there will be less subsidized exports on the world market (and such exports will likely take place at higher prices), thus providing opportunities for the more efficient non-subsidizing exporters. However, Governments will have considerable leeway for using different policy measures to meet their obligations within the "frontiers" set by the quantitative and budgetary commitments.[4] While a number of models have been developed to estimate the overall impact of the Agricultural Agreement on world prices (e.g. increased demand from access commitments, domestic subsidy reductions and commitments on export subsidies), these do not attempt to isolate those attributable to the export subsidy commitments alone.[5] However, it can be assumed that the latter will have an immediate effect on world prices, while the other factors will take time to be reflected in world prices. This immediate effect may, however, be mitigated by the "front loading" provisions. The main impact of the export subsidy commitments should arise from the increased security arising from the fact that subsidy competition between the major subsidizing countries has been brought within limits, which should lead to increased investment in agricultural production in the more efficient countries.

9. There are three elements to the commitment on market access: tariffication, tariff reduction and tariff quota commitments. Under the tariffication commitment, specific non-tariff measures have been converted into ordinary customs duties of approximate equivalent effect.[6] For developed countries, all agricultural tariffs, including those resulting from tariffication, are to be reduced by 36 per cent (on a simple average basis over all commodities) with a minimum rate of reduction of 15

per cent for each tariff item, over a six year period. For developing countries, other than the least developed countries, which are exempted from reduction commitments, the corresponding reduction requirements are 24 and 10 per cent, respectively. All agricultural tariff rates of all countries are henceforth bound.[7]

10. For the items subject to "tariffication", countries may invoke the special agricultural safeguard, provided that the tariff items concerned have been designated by the symbol "SSG" in the Schedule. The special safeguard clause permits members to impose an "additional duty" on imports of the items so indicated if the volume of imports exceeds a "trigger level" in terms of percentage of domestic consumption or when import prices fall below a "trigger price" based on a 1986-1988 reference price. Technically, it is possible for these additional duties to be as high as almost 52 per cent of the base period reference price; however, this would require that the c.i.f. import price falls below the reference price by more than 75 per cent of the latter.

11. For the items subject to tariffication, tariff quotas have been provided at lower rates to implement current and minimum access opportunities. Tariff quotas have been allocated to specific supplying countries whose exports were previously limited by quantitative restrictions or voluntary restraints to preserve "current market opportunities". "Minimum access opportunities" are provided where there were previously no imports or in addition to the current access opportunities when the latter cover less than 5 per cent of the domestic market. The average tariffs applied within the tariff quotas for product groups are within the range of zero to 30 per cent (see table I.1 in the annex).

12. The tariffication process has resulted in very high levels of out-of-quota average tariffs, in some cases exceeding 300 per cent (see table I.1). In such cases the real opportunities created by the Agreement are likely to reside only in the current and minimum access tariff quotas. The tariff quotas for individual supplying countries established under the "Current Market Opportunities" obligation have been set out in the Schedules, with the allocation of open tariff quotas under the "Minimum Access Opportunities" being up to the relevant importing country. The commitment in the Agreement is that minimum access quotas and any expansion in current access quotas should be attributed on an MFN basis.

13. A few countries have made a specific distinction between current and minimum access quotas, listing them separately in their Schedules (see table I.2 in the annex). In other Schedules, the "Minimum Access Commitment" takes the form of tariff quotas which have not been allocated to any supplying country. In many countries, the tariff quotas in major sectors have been allocated to individual suppliers, in part or in whole, under the Current Market Opportunity commitment. Proportionally, however, the number of products subject to minimum access commitments and in principle open to all WTO suppliers are greater than those which have been allocated to specific suppliers, although this varies considerably as between countries.

14. A more precise idea of the market access opportunities will be possible when the importing countries' notifications are received by the WTO in 1995 as to the arrangements to be applied to allocate quotas to countries and to allocate licenses or access to importers, including the duration of the access (e.g. will the quotas be allocated for the duration of the implementation period, annually, monthly or per shipment?). The allocation of tariff quotas could be carried out on a first-come-first-served basis, through the auctioning of licenses or through an arbitrary division based on criteria set by the importing country. The European Union implementing legislation provides that the allocation of tariff quotas should be carried out according to the existing procedures of the various regulations governing EU imports of individual agricultural products. The United States implementing legislation provides that the President will have "similar authority" as that provided under Section 22 and the Meat Import Act to administer the tariff rate quotas; eventually the US implementing legislation converts the Section 22 quantitative restrictions into tariff rate quotas.

B. Trading opportunities arising from the commitments

1. Developed country commitments and their implications for global agricultural trading opportunities

15. Given the importance of OECD countries in world agricultural trade, their reform commitments under the Uruguay Round agricultural agreement have major implications for global agricultural markets and trading opportunities. With regard to commitments on market access, tariffication by OECD countries has affected 17 per cent (combined simple average) of their agricultural tariff lines. For the major markets, the proportion of lines subject to tariffication is 31 per cent for the European Union, 8.5 per cent for Japan and 8 per cent for the United States. The corresponding 1992 import value of tariffied products for each of these markets (under the access conditions prevailing in 1992) amounts to $14.4 billion, $2.5 billion and $2.8 billion. The share of developing countries as origins in these imports was 56.8 per cent, 13.5 per cent and 12.6 per cent, respectively.

16. The impact of tariffication on improvement in market access opportunities in OECD markets is unlikely to be particularly strong in the short to medium term for three reasons. The first relates to the fact that the resulting tariffs have been set at rather prohibitive levels in many cases (see table I.1 in the annex). Secondly, where the reduction of such tariffs could have had a major impact on trade flows, Governments have made use of the option of reducing them by only 15 per cent over the implementation period. Third, Governments have notified their intention to make use of the special safeguard provisions in respect of additional duties vis-à-vis these products; around 80 per cent of the tariffied items of OECD countries are subject to the safeguard clause.

17. For some products, however, the impact of tariff quota access commitments on additional trade flows may be significant. For example, the increased quantities concerned represent a significant share of world trade for dairy products and peanuts (see table I.3 in the annex). However, these opportunities will accrue mainly to the individual supplying countries which have been allocated tariff quotas under the "Current Market Opportunities" provisions.[8] The extent to which tariff quotas have been allocated to individual countries under this provision varies between countries, reflecting the differences in their pre-Uruguay Round import regimes (see table I.4 in the annex). In some cases the allocation among supplying countries has not been bound in the Schedules, but criteria have been established for their allocation.[9] For products such as beef, wheat and sugar, the world market share in terms of 1992 trade covered by the increases under the minimum access commitments is rather small. New trade opportunities will have to come from the "minimum access opportunities".[10] Nevertheless, as indicated above, an important key to improved trading opportunities for individual exporting countries is how importing OECD countries will allocate their "minimum access" quotas among supplying countries. In some cases, the possibility of allocating the minimum access quotas to individual countries or groups of countries seems to have been left open.[11] Countries are required to provide information in this regard as early as possible in 1995.

18. It should also be noted that suppliers may be able to compete for markets in excess of what is provided in the tariff quotas by quoting average prices based on in-quota and over-quota imports which could still be less than domestic prices (although the special safeguard clause would tend to discourage this).

19. Agricultural products which were subject previously only to tariff protection are basically less sensitive products, including tropical products. This category of agricultural products has experienced an average cut in tariffs of 36 per cent in Japan, 37 per cent in the European Union and 39 per cent in the United States. Reduction in tariffs on spices, flowers and plants averaged 61 per cent in the European Union, 55 per cent in Japan and 47 per cent in the United States. Other products receiving above-average cuts in tariffs in the three markets include tropical beverages and certain tropical oilseeds and oils. In addition, tariffs on tropical nuts and fruits, roots and beverages and spirits received above-average reductions in the United States and Japan.

20. Regarding preferential access, the three main instruments for implementing preferences in agricultural trade have been: exemption from tariffs; special quota access; and reductions in variable levies. These have been applied to a wide range of agricultural products, including tropical products, cereals, sugar, meat and dairy products. While some preferential access has been granted by all the Quad countries, i.e. Canada, the European Union, Japan and the United States, in the context of their GSP schemes, the main preferential access for agricultural products have been granted in the EU through the Lomé Convention, association agreements with European and Mediterranean countries and in North America through NAFTA. In some cases, preferential quotas have been preserved through the tariff quotas established to implement current and minimum access opportunities. However, where these have not been bound in schedules of concessions, they could be subject to challenge in the future. In principle, aside from the issue of erosion of preferential margins, tariff preferences need not be affected by the Agricultural Agreement. In fact, with tariffication, there is scope for preference-giving countries to grant tariff preferences within the schedule of tariffied rates.

21. Commitments on domestic support by OECD countries are reflected in the schedule of reductions in total AMS between 1995 and year 2000 shown in table I.5 in the annex. The total base-level AMS for these countries of US$ 158 billion is to be reduced to US$ 129 billion by year 2000, which is still rather high in comparison to OECD agricultural GDP. Specifically, domestic support as measured by AMS would decline only from 40 per cent to 32 per cent of OECD 1992 value added in agriculture.

22. The proportion of world trade that will be affected by OECD export subsidy commitments is significant for a number of commodities, as shown in table I.6 in the annex. While the amount of exports being subsidized will have to decline by 21 per cent by the year 2000, it is noteworthy that the remaining allowable subsidies will still be considerable. For OECD countries on the whole, with respect to a number of products (e.g. wheat and wheat flour, rice, vegetable oils and tobacco), export subsidies (volume and/or expenditures) will only begin to decline below base levels in 1997/1998. Because of the problem of the product specificity of commitments indicated above, it is also difficult to determine how the subsidy reduction commitments will be applied to specific products in certain groups (e.g. coarse grains, oilseeds, vegetable oils, etc.).

23. The Agreement on Sanitary and Phytosanitary Measures provides new disciplines to govern a major area of difficulty for developing-country agricultural exporters. It is intended to ensure that such measures will be applied only to the extent necessary to protect food safety and animal and plant health and will be based as far as possible on analysis and evaluation of objective scientific data. Provision is made for technical assistance for developing countries, and the provision for the recognition of disease areas within a country is of special interest to them. It will be important to ensure that the provisions of the Agreement are effectively implemented, and in particular that the use of national standards higher than international norms is minimized. It should be noted that some countries have been granted quotas in expectation that certain sanitary restrictions will be removed.[12]

2. Commitments of developing countries

24. Although developing countries' share of world agricultural trade is relatively small (25 per cent in 1992), their share as destinations in this trade has been growing. Commitments undertaken in the Uruguay Round are likely to have important implications for this trend. The provisions of the Agreement on Agriculture which are relevant to developing countries include, in particular, lower reduction commitments (two thirds of those of developed countries with respect to market access, domestic support and export subsidies) and a longer period (10 years instead of 6 years) for the implementation of commitments. The following observations can be made from a preliminary study of the Schedules of Commitments of developing countries.

25. With regard to commitments on market access, three elements are noteworthy. First, the level of security for trade in agricultural products in developing country markets will now be greater for two reasons. For one thing, because of tariffication, there will be virtually no non-tariff barrier affecting agricultural trade, and much greater transparency for traders. In addition, all tariffs on agricultural products, albeit at ceiling rates, will be bound. Prior to the Uruguay Round, the percentage of agricultural imports under bound ceiling rates in Africa was 8 per cent, Asia 36 per cent and Latin America 74 per cent.[13] Second, the tariffication process has resulted in a number of rather high tariffs, but generally not as high as those in developed countries, which have been cut only minimally in some cases. The products that are particularly affected are similar to those in developed countries (i.e. cereals, oilseeds, meat and dairy products) but also include some tropical products (e.g. coffee, tea and spices). It should be noted, however, that the bound tariff rates contained in the Schedules of developing countries largely take the form of "ceiling bindings" which, in many instances, exceed considerably the currently applied MFN tariff rates. These much lower tariffs may well continue to apply in future. The third element of note regarding the Uruguay Round market access commitments of developing countries concerns tariff quota commitments. Table I.7 in the annex indicates those developing countries, grouped according to regions, with commitments in respect of access tariff quotas. In terms of tonnage, the market access levels provided by developing countries across regions are highest for cereals, followed by oilseed and vegetable oils. Also, significant commitments are made with respect to live animals (particularly in Asia), dairy products and sugar. For products not subject to tariff quotas, significant reductions in tariffs in particular markets can also be expected to create additional market opportunities.

26. Concerning export competition, table I.7 also indicates those developing countries with export subsidies that are subject to reduction commitments. The products most affected by export subsidies across developing regions include sugar, rice, fruits and vegetables. In terms of budgetary outlays, aside from Mexico, Colombia and South Africa, export subsidies of developing countries rank among the lowest. In any case, the vast majority of developing countries do not maintain export subsidies.

27. Finally, those developing countries applying non-exempt forms of domestic support to agricultural products are also shown in table I.7. The reduction commitment (13 per cent) is to apply against a base period total level of support to agricultural producers of, in the case of Mexico, $9.7 billion, Republic of Korea - $4.0 billion, Venezuela - $1.3 billion and Brazil - $1.1 billion.

3. Non-WTO Members

28. It should be noted that the "tariffication" of non-tariff barriers will not be permitted for countries which are not currently Members of the WTO, as these will be required, in principle, to eliminate non-tariff barriers inconsistent with the multilateral trade agreements as a condition for accession. This would seem to constitute an incentive for non-WTO members to raise their tariffs as high as possible prior to entering into negotiations on their accession. In addition, unless provided under special bilateral agreements, these countries will not benefit from the current access and minimum access opportunities, although bound access has been provided to certain non-members in some schedules (e.g. of the EU).

II. TEXTILES AND CLOTHING

29. International trade in textiles and clothing has been governed for decades by a special trade regime. From the inception of the cotton textile arrangement in the early 1960s, this regime increased progressively its product and country coverage and intensified its discriminatory character.[14] While developing countries have nevertheless gained an important share in world trade in textiles and clothing, the opportunities for growth of their exports have been seriously restricted by the MFA. In 1992, the value of world trade in textiles and clothing amounted to $285 billion, which was equivalent to about 8 per cent of total world trade in goods. Textiles and clothing accounted for nearly 26 per cent of developing countries' exports of

manufactures and for 15.5 per cent of their total exports of goods. This section provides a preliminary assessment of trading opportunities resulting from the implementation thus far of the Agreement on Textiles and Clothing, including tariff reductions and other liberalization measures undertaken by all countries.

A. Main elements of the Agreement[15]

30. The Agreement on Textiles and Clothing is not merely a plan for the phasing-out of the MFA but an integral part of the WTO Agreements. It is applicable to all WTO members (signatories or not of the MFA), and all their trade in textiles and clothing should be subject to the provisions of this Agreement, excepting those products integrated into GATT 1994.[16] By contrast, the MFA was only applicable to trade in textiles and clothing among MFA signatories and thus could only legally be applied against those exporting countries which had agreed to be subject to its provisions.[17]

31. The main market access elements of the Agreement on Textiles and Clothing are summarized in box 2. First and foremost, the Agreement provides for the phasing-out of the MFA, leading to the complete "integration" of this sector into GATT at the end of the ten-year transition period. The phasing-out process comprises two aspects: (i) the integration of the sector into the GATT, through the gradual elimination of the export restraints contained in bilateral agreements; and (ii) the increases in growth rates for the quotas of the products still remaining under restriction during the ten-year transition period.

32. In addition to the phasing-out of the MFA restrictions, the Agreement also deals with other GATT-inconsistent non-MFA restrictions on textile and clothing products, including all unilateral restrictions, bilateral arrangements and other measures having a similar effect. With the eventual elimination of the MFA quotas and other non-MFA restrictions, tariffs will become the main instrument of border protection in this sector.

B. Trading opportunities arising from the main provisions of the Agreement

1. The phasing-out of MFA restrictions

33. Market access opportunities in the textiles and clothing sector can be expanded with the implementation of the "integration" programmes which will progressively abolish MFA quotas. However, the "integration" programmes may not bring about any immediate trade liberalization. This is mainly because the Annex to the Agreement contains many HS (Harmonized Commodity Description and Coding System) lines which have never been specifically restricted in any country,[18] so that the major restraining countries can fulfil their obligations under the Agreement in the first two stages without affecting the MFA quotas. Thus, a modest dimension of trade expansion may only become perceptible from the beginning of the third stage, in the year 2002 (see charts 1 to 4 in the annex).

34. The examination of the integration lists of Canada, the European Union, Norway, and the United States for the first stage, which were notified in October 1994 and were effective as from 1 January 1995, shows that in the case of Canada, the import value of the products integrated in the first stage was around $650 million, or nearly 13 per cent of total imports of textiles and clothing as defined in the Annex to the Agreement (see table II.1 in the annex).[19] As Canada has not provided the correlation between the HS lines and the categories integrated, it is not possible to ascertain whether the first stage integration of Canada will have any impact on world trade, and in particular on its imports from developing countries.

35. With regard to the integration list of the European Union, while the EU has apparently met the 16 per cent requirement in volume terms, this is due to the inclusion of some "ex-items" (i.e. part of the 6-digit HS code). Although in many cases these ex-items were only a fraction of the HS lines at the 6-digit level, the EU added up the full HS 6-digit volume when computing the amount of imports integrated. Furthermore, none of the 10 notified categories were subject to any MFA

quota in 1994. Although products of two categories were subject to the EU's regional quotas for a few exporting countries in 1990, these quotas were later eliminated with the creation of the EU single market in 1992. In value terms, the products integrated in the first stage by the EU had an import value of $3,700 million in 1990, that is 8.7 per cent of the EU's total imports of textiles and clothing as defined in the Annex of the Agreement. However, if attention is limited to Section XI (textiles and textile articles including clothing) of the HS Code, the products integrated would represent less than 2.3 per cent of the EU's textiles and clothing imports (see table II.1 in the annex). The import value of the products integrated by the EU in the first stage represents less than 8 per cent of developing countries' exports of textiles and clothing to the EU in 1990.

36. The first stage integration list of the United States does not include any product covered by MFA restrictions.[20] The import value of the products integrated was $2,300 million, or 6.9 per cent of total US imports of textiles and clothing in 1990. For developing countries, this import value represents less than 5 per cent of their exports of textiles and clothing to the United States in 1990 (see table II.1 in the annex). Among the products integrated, 40 per cent fell outside Section XI of the HS Code and they were mainly in made-ups and clothing segments. Ex-items could also be found in the segment of made-ups.

37. The integration list of Norway is based on HS lines and contains many ex-items which in many cases are only a fraction of the full HS lines at the 6-digit level. Like the EU, Norway added up the volume of imports for the full HS 6-digit line when computing the amount of imports integrated. Assuming, therefore, that only a portion of the HS 6-digit trade should be included, say for example 50 per cent, the volume of trade actually integrated would be less than the 16 per cent required by the Agreement. In value terms, the products integrated in the first stage are equivalent to $143 million of imports, or 7.4 per cent of Norway's total imports of textiles and clothing in 1990. It should be noted that among the products integrated, only about 2 per cent fell within Section XI of the HS Code (see table II.1 in the annex).

38. To summarize, products which had not been previously subject to restrictions have been "integrated" first, while the integration of more sensitive products in each category has been postponed.[21] Furthermore, the products integrated from each of the four groups (i.e., tops and yarns, fabrics, made-up textile products and clothing) in the first stage by Canada, the EU, Norway and the United States were uneven. For example, the share of clothing was minimal. In the EU list, clothing accounted for less than 3.1 per cent of the total volume of developing countries' exports of that segment to the EU in 1990; in the case of Norway, clothing accounted for only 1 per cent; and in the case of the United States, for only 1.72 per cent. Furthermore, the analysis suggests that: (i) in order to meet the integration target, which was set in volume terms, the products integrated were high in volume and low in value; (ii) no product integrated into GATT 1994 by the EU, the United States, Norway and perhaps Canada was covered by quantitative restrictions under the MFA; and therefore (iii) the first stage of the integration programme is unlikely to lead to any trade liberalization, thus having no impact on world trade in textiles and clothing, and offering no new market access opportunities for developing countries.

39. As regards further stages in the integration programme, Article 2:11 of the Agreement stipulates that products to be integrated at the second and third

Box 2

Key market access elements of the Agreement on Textiles and Clothing

Integration programme

The Agreement provides that products covered in the Annex to the Agreement, including those subject to MFA restrictions, shall be integrated into GATT 1994 in four stages as follows:

. **Stage One** - on 1 January 1995, members shall integrate into GATT 1994 products which account for not less than 16 per cent of the total volume of the member's 1990 imports of the products in the Annex, in terms of HS lines or categories;

. **Stage Two** - on 1 January 1998, products which account for not less than a further 17 per cent of the total volume of the member's 1990 imports of the products in the Annex;

. **Stage Three** - on 1 January 2002, products which account for not less than a further 18 per cent of the total volume of the member's 1990 imports of the products in the Annex;

. **Stage Four** - on 1 January 2005, the textiles and clothing sector shall stand integrated into GATT 1994, all restrictions under this Agreement having been eliminated.

The Agreement provides that the integration in each stage must encompass products from each of the four groups of tops and yarns, fabrics, made-up textile products and clothing. The selection of products is left to the importing countries.

Increases in growth rates for the MFA quotas

At each of the first three stages of the integration programme, an annual increase of the established growth rate (i.e. the growth rate from the former MFA restraints carried out into this Agreement) for the remaining restrictions is provided for (under paragraphs 13 and 14 of Article 2 of the Agreement) as follows:

. for **Stage One** (from 1 January 1995 to 31 December 1997), the level of each restriction under MFA bilateral agreements in force for the 12-month period prior to the date of entry into force of the WTO Agreement shall be increased annually by not less than the growth rate established for the respective restrictions, increased by 16 per cent;

. for **Stage Two** (from 1 January 1998 to 31 December 2001), the growth rate for the respective restrictions during Stage One, increased by 25 per cent; and

. for **Stage Three** (from 1 January 2002 to 31 December 2004), the growth rate for the respective restrictions during Stage Two, increased by 27 per cent.

Improvement in other flexibility provisions

The Agreement (under Article 2:16) provides for flexibility provisions (swing, carryover, and carry forward) to be the same as those provided for in MFA bilateral agreements for the 12-month period prior to the entry into force of the WTO Agreement. No quantitative limits shall be placed or maintained on the combined use of swing, carryover, and carry forward.

Increases in growth rates for the MFA quotas for small suppliers

Under Article 2:18 of the Agreement, small suppliers whose exports subject to restrictions represented 1.2 per cent or less of the total volume of the restrictions applied by an importing member as of 31 December 1991 shall be granted meaningful improvement in access for their exports during the duration of this Agreement, through the advancement by one stage of the growth rates, i.e., their growth rates shall be increased at the beginning of each stage by 25, 27, and 27 per cent respectively instead of 16, 25, and 27 per cent.

Phasing-out of other non-MFA restrictions

The Agreement also provides that all GATT-inconsistent non-MFA restrictions shall be either: (1) brought into conformity with GATT 1994 within one year following the entry into force of the WTO Agreement; or (2) phased out progressively under a programme within the duration of this Agreement.

(Continued)

Box 2 (Cont'd)

Transitional safeguard mechanism

In parallel to the progressive phasing-out of both MFA and GATT-inconsistent non-MFA quantitative restrictions, the Agreement (under Article 6) continues to permit the imposition of new quantitative restrictions by all WTO members on product(s) (covered by the Annex, that have not yet been integrated into GATT 1994 under the integration programme) of a specific member or members on a discriminatory basis for up to three years during the transition period under the so-called "transitional safeguards" mechanism. Members which were signatories to the MFA but not maintaining MFA restrictions may retain the right to use the transitional safeguards on the condition that they notify the Textiles Monitoring Body (TMB) of their intention within 60 days following the date of entry into force of the WTO Agreement. Members which were not signatories to the MFA since 1986 are required to notify the TMB within 6 months after the entry into force of the WTO Agreement, of their intention in this regard.* If they choose not to do so, their trade in textiles will be deemed to have been integrated into GATT 1994 at a stroke. If, however, they decide to retain the right to use the transitional safeguards, they must notify the full details of their actions under the integration programme to the TMB within 12 months after the entry into force of the WTO Agreement as to which products will be integrated into GATT 1994 during the first stage (Article 2:7(b)).**

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* In other words, this means that those non-MFA signatory members, even if they are currently not maintaining any quantitative restrictions but wish to retain the right to use the transitional safeguards, have to notify their intention to the TMB by 1 July 1995.

** For those who decide to retain the right to use the transitional safeguards, their trade in textiles and clothing as defined in the Annex to the Agreement will be deemed completely outside of GATT 1994, and thus, have to be integrated into GATT 1994 under the integration programme as outlined above. On 1 January 1996, they must notify the full details of 16 per cent of the total volume of their 1990 imports of textiles and clothing to the TMB for integration into GATT 1994 during the first stage. Subsequently, such notifications should be made 12 months before each of the integration stages starts.

stages should be notified to the Textiles Monitoring Body (TMB) 12 months before their coming into effect. The United States, however, has decided in its Uruguay Round Agreements Act of 1994 (Section 331) to publish "no later than 120 days after the WTO Agreement enters into force for the United States"(i.e. by 1 May 1995)[22] a second list of products which it intends to integrate in the second and third stages of the integration programme. This second list will be published in the US Federal Register and notified to the TMB no later than 30 days thereafter. Prior to the publication of this final list, a proposed list was published at end of January 1995 in the Federal Register for comments from all interested parties.[23]

2. Increases in the annual growth rates of quotas

40. In parallel to the integration programme, the Agreement provides for increases during the transition period in the growth rates of the remaining quotas (see table II.2 in the annex). Whereas the MFA quota-weighted average growth rate for all the restraining countries was around 3 per cent, by the beginning of the third stage of the transition period the growth rate could rise to 5.52 per cent. Thus, by the end of the ten-year period, quotas could be enlarged by 54 per cent. For those exporting countries that enjoyed higher growth rates under the MFA, such as 6 per cent, by the beginning of the third stage the growth rate could rise to about 11 per cent, resulting in the enlargement of their quotas by 134 per cent at the end of the ten-year transition period. As estimated by the International Textiles and Clothing Bureau (ITCB), the total volume of quotas would increase by 102 per cent in Canada, 64 per cent in the EU, and 89 per cent in the United States by the end of the transition period (see table II.3 in the annex). These estimates are based on the assumption that the existing quotas would remain intact until the end of the transition period.

41. For specific developing exporting countries, for example Bangladesh, which enjoyed a 7 per cent growth rate under the MFA in the United States market, its MFA quotas would increase from 255 million square meter equivalents (SME) in 1994 to 683 million SME in 2004. For India, with a growth rate of around 3 per cent, its

exports of MFA-restrained products to the EU would increase from 176,625 tons in 1994 to 278,524 tons in 2004. For Jamaica, with a growth rate of 6 per cent, its exports of MFA-restrained products to Canada would increase from 3.6 million SME in 1994 to 8.4 million SME in 2004.

3. Phasing-out non-MFA restrictions

42. Under the Agreement members are committed to notifing in detail all their restrictions on textile and clothing products (other than those maintained under the MFA), whether consistent with GATT 1994 or not, to the TMB within 60 days following the date of entry into force of the WTO Agreement. Such notification should also include information with respect to whether or not the restrictions are justified under GATT 1994 provisions. Any members may also make reverse notifications in this regard or concerning any restrictions that may not have been notified under the provisions of this Article.

43. In general, non-MFA restrictions can be grouped into three categories, as follows: (i) restrictions falling outside the MFA imposed by some developed countries which were signatories to the MFA; (ii) restrictions imposed by MFA signatories against non-MFA signatories; and (iii) measures maintained by other countries, including developing countries, whether or not MFA signatories, except those justified under the provisions of GATT 1994.

44. As was noted earlier, the Agreement provides that all GATT-inconsistent non-MFA restrictions shall be either brought into conformity with GATT 1994 within one year following the entry into force of the WTO Agreement, or phased out progressively under a programme within the duration of the Agreement. Although it is difficult to determine at this stage the extent to which the non-MFA restrictions are GATT inconsistent, the removal of these measures would no doubt bring increased security and predictability to developing countries' access to the world market of textiles and clothing.

4. Special treatment for small suppliers

45. While most of the special treatment provisions contained in the Agreement are of a "best endeavour" nature (such as for least developed countries, wool-producing countries and countries dependent on outward processing trade), the provisions for small suppliers are more concrete. It is provided that small suppliers, defined as those whose exports under restrictions represent 1.2 per cent or less of the total volume of the restrictions applied by an importing member as of 31 December 1991, shall be granted "meaningful improvement" in access for their exports during the implementation of this Agreement, which is to take the form of advancement by one stage of growth rates provided for products remaining under restrictions. In other words, the growth rates of small suppliers would be increased at the beginning of each stage by 25, 27 and 27 per cent respectively instead of 16, 25 and 27 per cent.

46. Countries that would qualify on the basis of the 1991 volume of trade under restrictions, as estimated by ITCB, are listed in table II.4 in the annex. Taking Sri Lanka for example, its MFA quota-weighted average growth rate in the bilateral agreement with the EU was 7.3 per cent in 1994. As a small supplier to the EU market, Sri Lanka's growth rate by the beginning of the third stage could rise to nearly 15 per cent, resulting in the enlargement of its quotas by more than 170 per cent at the end of the ten-year transition period. For Jamaica, which enjoyed a 6 per cent growth rate under its bilateral agreement with the United States in 1994, by the beginning of the third stage, its growth rate would rise to 12 per cent, resulting in the enlargement of its quotas in the United States market by around 152 per cent at the end of the ten-year transition period.

5. Tariff reductions

47. The average tariff level in the textiles and clothing sector had always been considerably higher than for all industrial products in the developed countries. The pre-Uruguay-Round average tariff in the developed countries as a group for textiles and clothing products was 15.5 per cent, compared to 6.3 per cent for

industrial products. The Uruguay Round has reduced the level to 12.1 per cent for the textiles and clothing sector, as against 3.9 per cent for all industrial products. The reduced level for the textiles and clothing sector would still stand at more than triple the Uruguay Round average tariff for all industrial products. The depth of cuts in this sector was also significantly less, being 22 per cent, compared to 38 per cent for all industrial products.[24]

48. An analysis of the Quad countries' tariff reductions on imports from all sources shows that while Canada and Japan cut their tariffs in the textiles and clothing sector by 38 and 33 per cent respectively, the percentage of reduction in the EU and the United States amounted to only 17 and 13 per cent respectively. The average level of tariffs in the textiles and clothing sector in the post-Uruguay Round period among the four countries would be lowest in Japan, at 8.1 per cent, followed by the EU, 9.7 per cent, Canada, 12.6 per cent, and the United States, 13.6 per cent (see table II.5 in the annex). It is important to note that smaller reductions were given to imports of interest to developing countries. The average level of tariffs weighted by imports from developing countries in Canada and the United States has remained higher than that weighted by imports from all sources. This was mainly due to the fact that the Quad countries did not offer tariff reductions on products for which non-GATT contracting parties, such as China, are major suppliers.[25]

49. Tariff escalation is noticeable in imports by the Quad countries: the post-Uruguay Round tariff averages (for imports from all sources) for tops and yarns in the EU and Japan would be around 4 per cent, and in Canada and the United States they would be 7.1 and 6 per cent respectively. The tariff averages for clothing would be 9.4 per cent in Japan, 11.5 per cent in the EU, 15 per cent in Canada and 15.7 per cent in the United States.

6. Liberalization measures by developing countries

50. In the past, many developing countries protected their domestic textile and clothing production from import competition or pursued an import-substitution policy based on the infant-industry argument. Since the late 1970s and early 1980s, more and more developing countries have adopted trade liberalization as a general strategy to sustain economic growth. During the course of the Uruguay Round negotiations, almost all Latin American countries autonomously removed restrictions on imports of textile and clothing products, and several Asian countries opened their markets to imports as a part of their programmes of economic liberalization.

51. In the context of the Uruguay Round, developing countries also made significant contributions by undertaking tariff reductions, tariff bindings, and the elimination of non-tariff measures. It is, however, not possible at this stage to calculate the average depth of cuts in textiles and clothing tariffs for this group of countries, because for many of them ad valorem equivalents of specific duties are not available. Nevertheless, a number of developing countries have reduced their tariffs, and many others have substantially bound their schedules, some of them fully.[26] More recently, some developing countries have undertaken further reduction of tariffs and non-tariff measures.[27]

52. These commitments by developing countries, together with the obligations of the phasing-out of GATT-inconsistent non-MFA restrictions and the strengthened GATT rules and disciplines, particularly in areas such as safeguards, balance-of-payments provisions, notification procedures, etc., would no doubt improve access to their markets for textiles and clothing.

C. Measures and issues that may affect the effective implementation of the Agreement

53. As indicated in box 2, the Agreement permits new quantitative restrictions to be imposed by all WTO members under the so-called "transitional safeguard" mechanism on a discriminatory basis for up to three years. Although detailed procedures are set out, the provisions of the transitional safeguards continue to

bear a strong resemblance in criteria to the MFA. Thus, it is important for the members to avoid frequent recourse to such provisions and to ensure that the transitional safeguards are applied "as sparingly as possible".[28] Since the Agreement, as referred to earlier, is an integral part of the Uruguay Round Agreements and applicable to all WTO members' trade in textiles and clothing, some developing countries whose exports are continuously subject to MFA quota restrictions during the ten-year transition period might also use the transitional safeguards against imports of textile and clothing products from other countries. Some developing countries may therefore find themselves faced with the transitional safeguards in their export markets (whether or not they were signatories to the MFA) while also imposing such safeguards against imports from other developing or developed countries.

54. The effective and meaningful integration of this sector into GATT 1994 will also depend considerably on how far the provisions of the Agreement are respected by the major importing countries during the implementation process. In this regard, it is important to note that some major importing countries, in their national implementing legislation,[29] have linked the integration process and the increases in growth rates for MFA quotas to the further opening of markets by developing countries for their exports of textile products. Such linkage, particularly as unilaterally interpreted or defined, could give rise to disputes and pose a threat to the effective implementation of the Agreement.

55. Furthermore, the phasing-out of MFA and GATT-inconsistent non-MFA restrictions might also lead to pressures for an increased application of other trade remedy measures such as anti-dumping and countervailing actions against imports of textiles.

56. Finally, the long-term prospects for some developing countries' trade in this particular sector could also be affected by the reduction of tariffs by the major importing countries, together with the gradual phasing-out of the MFA and GATT-inconsistent non-MFA restrictions. These developing countries' current guaranteed access to the major importing-country markets under the special arrangements[30] could be challenged as a result of the returning of this sector to GATT, and their existing margin of preferences could be eroded by the reduction of MFN tariffs.

III. OTHER INDUSTRIAL PRODUCTS

57. This section analyses improvements in market access conditions in industrial products other than textiles and clothing arising from the Uruguay Round. Because of the overwhelming importance of the DMECs in world trade in these products, the analysis focuses (but not exclusively) on the schedules of concessions of these countries.

58. In 1992, the value of world trade in manufactures other than textiles and clothing amounted to $2.4 trillion, which was equivalent to 65.8 per cent of world trade. Manufactured products other than textiles and clothing products accounted for about 45 per cent of developing countries' export earnings.

A. Principal elements of the Uruguay Round affecting industrial products

59. In contrast to agriculture and the textiles and clothing sector, industrial products have been more subject to the rules and disciplines of GATT, and tariff protection was considerably reduced. However, the reduction in industrial tariffs and the general prohibition of quantitative import restrictions on manufactured products was accompanied by a proliferation, particularly in the years preceding the Uruguay Round, of "grey-area" protectionist measures such as voluntary export restraint arrangements, import monitoring and surveillance measures, discretionary licensing, etc., and by increased use of measures affording administrative protection such as anti-dumping and countervailing duty actions. The Uruguay Round has addressed not only tariffs but also "grey-area" non-tariff measures in industrial sectors.

60. In developed-country markets, for example, average tariffs on industrial tariffs were reduced from 6.3 per cent to 3.8 per cent. In these markets, duty-free access for industrial products was expanded from 20 per cent to 44 per cent of total imports, and tariff peaks were reduced. There has also been an increase to nearly 100 per cent in the number of tariff lines now bound in DMECs. The reduction of MFN tariffs in the Quad countries would increase considerably duty-free access to these markets for developing countries' industrial products, once the concessions are implemented, from 7 per cent to 30 per cent for the four markets taken together (see table III.1 in the annex). The increase in the proportion of industrial products imported under zero MFN duties will be particularly significant in the United States and Japan.

61. Concerning non-tariff measures, although the Round did not result in action on product-specific non-tariff measures, the clarification of rules and the strengthening of disciplines in a number of areas (e.g. safeguards, subsidies and countervailing measures, anti-dumping actions, technical barriers, import licensing, etc) will have an important impact on the use of non-tariff measures.

62. The schedule for the implementation of commitments on tariffs and non-tariff measures affecting industrial sectors is, in general, as follows: commitments on tariff reductions will be implemented in equal annual installments over the implementation period, i.e. 1995 to 2000 for developed countries and 1995 to 2004 for developing countries. With regard to non-tariff measures, for example, the Agreement on safeguards provides that "grey-area" measures will be phased out within four years after the entry into force of the WTO.

B. Commitments by developed countries affecting market access for industrial products

1. Tariff reductions

63. A major thrust in tariff reductions in the industrial sector was provided by the "Quad" agreement among Canada, the European Union, Japan and the United States for the mutual elimination of tariffs in nine product categories (the "zero for zero" approach).[3] The full tariff liberalization on these products will benefit mainly trade among developed countries. For one thing, the products are more concentrated in the exports of developed countries to Quad countries. Furthermore, the market shares of developed countries in the imports of the Quad countries are much larger than those of developing countries (see annex table III.2). Nevertheless, in some instances, developing countries are also likely to benefit significantly from the full tariff liberalization in those product categories. This is true in those cases where developing countries have a significant share (over 10 per cent) in the imports of some Quad countries (for example, medical equipment imported by the United States, and steel and furniture imported by the European Union, the United States, and Japan). It should be noted, however, that while the elimination of tariffs in these product categories constitutes a major improvement in market access conditions, in particular for products not receiving preferential treatment, it also represents a significant erosion of GSP and other preferential tariff margins, which may pose difficulties for some developing countries in the medium term.

64. With regard to natural-resource-based products, tariff cuts by Quad countries on forestry products are above the average percentage reduction for all industrial products. For example, in Canada imports of these products will enter duty-free following the elimination of tariffs averaging 4.7 per cent. Reductions from moderate rates will result in average tariffs, weighted by imports from developing countries, of 1.3 per cent in the European Union, 2.5 per cent in Japan and 3 per cent in the United States. For non-ferrous metals and minerals, average reductions in MFN duties by Canada and Japan are greater than those for all industrial products and will result in average duties of less than one per cent. However, the European Union and the United States reduced MFN tariffs on this category of products by around 20 per cent, which is below the one-third reduction set as a target for reduction of tariffs on industrial products. The average reductions of tariffs on fishery products in the four markets are below the average reduction for all

industrial products. Again, the average cuts by the European Union and the United States do not reach the one-third agreed target for industrial products. Tariff averages remain relatively high in the European Union, especially when weighted by imports from developing countries (around 13 per cent). The reductions result in moderate tariffs (less than 5 per cent) in the three other markets.

65. For tropical industrial products, access conditions with regard to tariffs will be improved for imports of plaiting materials into Quad markets. Average tariff reductions were greater than those for all industrial products except in Canada, where tariff cuts for this product group conforms to the target of one-third reduction. MFN tariff averages weighted by imports from developing countries fall from 5.6 per cent to 1.7 in the European Union, from 5.5 per cent to 1.2 in Japan and from 4.5 per cent to 0.4 in the United States. The weighted averages of MFN duties on imports of rubber and wood products from developing countries will be reduced by 50 per cent in Canada and the United States and by 56 per cent in the European Union and Japan. Thus, tariff reductions in this category of products may considerably improve market access conditions on an MFN basis. An even greater absolute reduction in MFN tariff averages is observed for the jute and hard fibres product group in concessions made by Japan, where pre-Uruguay Round MFN tariff averages of around 11 per cent would be reduced to 4.2 per cent for imports from developing countries. Tariff cuts by the other Quad countries are less significant in absolute terms: the MFN tariff average will be reduced from 4.1 to 2.7 per cent in Canada, from 6.6 to 3.4 per cent in the European Union and from 1.3 to 0.3 per cent in the United States.

66. Among the categories of other manufactured products of interest to developing countries, the average reduction of MFN tariffs on office machines and telecommunications equipment was above the 40 per cent average tariff cut by developed market-economy countries on all industrial products. For example, in the European Union, the 8.2 per cent weighted MFN tariff average on imports from developing countries will be almost halved, while duties averaging 4.1 per cent will be eliminated by Japan. For a number of other products, however, tariff reductions were below the average reduction for all industrial products. This is particularly true for labour-intensive products such as textile products (see chapter II above), footwear and leather goods, as well as for automotive products, cycles and motorcycles. For example, the weighted MFN tariff averages on footwear in the Quad markets will remain particularly high. In Canada, average import duties will be reduced by only one-fifth, from 22.5 per cent to 18 per cent; in Japan, from 16 per cent to 14 per cent; and in the United States, a slight reduction to 11 per cent. In the case of travel goods, tariffs will remain relatively high on average in Canada and the United States, where tariff concessions will reduce average MFN rates from 15 per cent to 10 per cent and from 15 per cent to 14 per cent respectively. For Japan and the European Union, tariffs will be reduced from 10 per cent to 8 per cent and from 6 per cent to 4 per cent respectively. Regarding automotive products, cycles and motorcycles, it is noteworthy that Japan eliminated MFN tariffs completely on these products. In the United States, where average duties are relatively low on imports of automotive products (around 5 per cent) but much higher for motorcycles and cycles (nearly 18 per cent), tariff reductions of 3 per cent and 11 per cent respectively, were made.

2. Non-tariff measures

67. The most significant non-tariff measures affecting access to markets are quantitative restrictions. These take various forms in different countries. In the Quad countries, in addition to quotas applied under the MFA (Japan excepted) and in the agricultural sector, these have operated mainly as "grey-area" measures, the use of which has become increasingly widespread in recent years,[32] together with an intensification of resort to anti-dumping and countervailing duty actions and other unilateral measures instituted to address allegedly "unfair" trade practices. These measures have been applied selectively to products originating in certain countries, including developing countries, and have eluded the conditions for the application of safeguard measures under article XIX of the GATT, which have been less frequently invoked.

68. Table III.3 in the annex shows the incidence of the application of grey- area measures and of other types of border measures on imports from developing countries. In addition to agricultural and textile products, a large proportion of imports of fishery products, footwear and steel were subject to "grey area" measures in 1993.

69. While the Uruguay Round agreements do not address specific non-tariff measures on a tariff line basis, it is expected that elimination of non-tariff measures on industrial products will derive from the strengthened disciplines provided in various multilateral agreements. In particular, the Agreement on Textiles and Clothing which provides for the phasing-out and elimination of the MFA, and the Agreement on Safeguards which, in addition to clarifying and reinforcing the disciplines for the application of safeguard measures, including the MFN clause, provides for the elimination and prohibition of the so-called "grey-area" measures.

3. Commitments by developing countries

70. Most developing countries made substantial commitments on access to their markets, in many cases consolidating the results of their unilateral liberalization programmes undertaken prior to, or during, the Uruguay Round. With regard to tariffs, these include: (a) the binding of rates at prevailing or ceiling levels; and (b) reduction of rates (ceiling rates in most cases).[33] For example, Latin American countries have especially increased the coverage of bound tariffs, although mostly at levels above the currently applied rates, from an average of 38 per cent of all tariff lines to a level covering all products.

71. Developing countries reduced MFN duties on 46 per cent of industrial tariff lines equivalent to 32 per cent of their import value of such products. In particular, the proportion of tariff lines subject to high rates (over 35 per cent ad valorem) was reduced from 42 per cent to 20 per cent (i.e. from 15 per cent to 8 per cent of the value of imports from all sources). Reductions in bound average tariffs vary considerably among developing countries. The percentage reduction in average tariffs on industrial products by several developing countries (e.g. Brazil, India, Republic of Korea, Singapore and Venezuela) was comparable to, or even greater than, that of developed countries; reductions were smaller in other cases, but from levels that were in general higher than in developed countries; in some other cases, there is an increase in the post-Uruguay Round averages of bound tariffs compared with the pre-Uruguay Round situation, as a result of concessions for binding of ceiling rates.[34] However, as the resulting bound tariffs are generally higher than existing applied rates, they seem unlikely to affect trade directly. In any case, the reductions and extensive binding of tariffs by developing countries imply an improvement in the security and predictability of access to their markets, which moreover is reinforced by the rules and disciplines in other trade policy areas which they have accepted.

72. With regard to non-tariff measures, developing countries have reduced or eliminated unilaterally many NTMs as more outward-oriented trade policies have been implemented.[35] Developing countries' commitment to trade liberalization was reinforced by their acceptance of the Uruguay Round agreements which require greater observance of rules and disciplines governing trade, placing them on an equal footing with other participating countries.

C. Remaining problems in industrial sectors

73. Despite the substantial general reduction of MFN tariffs on industrial products, the problem of high MFN tariffs still remains in some industrial sectors. This is particularly true for the clothing sector, travel goods and leather products, which in general are not covered by preferential schemes. On the basis of trade flows in 1992, 15 per cent of all imports from developing countries into Canada and 14 per cent into the United States fall under tariff lines facing high post-Uruguay-Round MFN tariffs, i.e. of 15 per cent or more (see table III.1 in the annex). The proportion is much less for imports into the European Union and Japan, although at a more detailed level it increases considerably for a few product categories.

74. With respect to tariff escalation, while tariff concessions made by the Quad countries will reduce, or even eliminate in some cases, escalation of MFN tariffs, this will still remain a problem in sectors of export interest to developing countries (see table III.4 in the annex). For example, aside from the elimination of tariff escalation on forestry products and non-ferrous metals in Canada, escalation of MFN tariffs remains with respect to these products in the other Quad markets and also for fishery products, where steep escalation persists in the four markets. In the tropical industrial products sector, while tariff escalation has been eliminated on tropical wood in Canada, on jute products in the United States and on rubber products in Japan, in other cases it remains at some or all stages of processing. In the leather sector, higher MFN tariffs than those for raw materials will still be applied to products at the intermediate and final stages of processing. Finally, while the elimination of tariffs on products under the "zero-for-zero" approach has considerably reduced tariff escalation on imports of these products, escalation will increase for imports of products at the final stage of processing.

75. The erosion of GSP preferential tariff margins resulting from the reduction of MFN tariff rates by the Quad countries is shown in table III.5 in the annex. Margins will in general be most markedly eroded by MFN tariff cuts in Canada, where the GSP margin will be reduced for manufactures as a whole by as much as 96 per cent on a weighted average basis, i.e. a loss of 4.2 percentage points from an initial 4.4 percentage average margin. They will be relatively preserved in the European Union, where a margin of 6.3 per cent points will still be enjoyed by developing countries in spite of an erosion of nearly one-third of the GSP margin. On a sectoral basis, while erosion will be substantial in all four markets, margins will be eroded the least in the United States for natural-resource-based products, in Japan for tropical industrial products and in the European Union for textile products. For products under the "zero-for-zero" approach, losses of preferential margins range from 4.0 percentage points in Japan and the United States to 5.7 in the European Community.

76. With regard to the elimination of non-tariff measures, the strengthening and clarification of the rules governing trade policy actions are designed to ensure security of access, transparency and predictability, as well as to prevent unilateral and discriminatory selective action. However, some provisions in the agreements may be open to abuse.[36] Hence, the attainment of these objectives will depend on actual implementation of legislation and administrative practices with regard to the commitments made by importing countries in the various multilateral agreements. This will require vigilance on the part of the exporting countries, to be exercised both with respect to the application of these laws as well as in the context of the various Committees established to oversee the Agreements and the notifications made under their auspices.

IV. CONCLUSIONS AND RECOMMENDATIONS

77. The implementation of the Uruguay Round agreements began with the entry into force of the WTO on 1 January 1995. This report has attempted to analyze the implications for trading opportunities arising from the implementation thus far of the Agreements in the areas of agriculture, textiles and clothing and other industrial products.

78. Despite the commitments under the Uruguay Round Agreement on Agriculture, world trade in agricultural products will still face high rates of protection and subsidization. Nevertheless, the Agreement constitutes an important first step in establishing a binding "standstill and roll-back" of protectionist measures in this sector. As such, it provides a good basis for further negotiations, as envisaged by the Agreement, aimed at more meaningful liberalization and reform. The market opportunities arising from the Agreement on Agriculture can be assessed in relation to the three areas of commitments concerning import access, export competition and domestic support reduction. The immediate benefit of the Agreement in terms of market opportunities will be the opening-up and increase of tariff rate quotas. In important sectors in major importing countries, these quotas have been allocated to specific supplying countries under the "Current Market Opportunities" provision,

which provides these suppliers with secure, and in some cases substantially improved, access. The Schedules of some major importing countries provide significant openings in the form of MFN tariff quotas under the "Minimum Access Opportunities" provision (e.g. rice and groundnuts). However, for all tariffied products, the distribution of tariff quotas among specific supplying countries will be crucial for determining the trading opportunities of individual countries in specific products. Countries are required to notify the WTO on their method for allocating quota licenses during 1995.

79. Although the tariffication process has often resulted in extremely high tariffs, whose protective effect is supplemented by the Special Safeguard Clause, the fact that all agricultural tariffs are bound is an important, positive result. Furthermore, concessions on existing tariff rates on other items may provide new market opportunities, especially in sectors such as flowers, spices, beverages and certain tropical oil seeds and oils, fruits and roots. Although there may be some erosion of the margin of tariff preferences from which developing countries have benefited under preferential arrangements such as the GSP and the Lomé Convention, the tariffication process provides a framework for future improvements in such preferential schemes.

80. The commitments on export subsidies spell the end of the export subsidy competition which had displaced developing country suppliers in many markets and should provide them with improved export opportunities. However, this effect may be delayed by the "front loading" provision and complicated by the aggregation of items in certain product categories, which provides scope for targeting certain products and markets for subsidization.

81. The commitments on domestic support may not bring any clearly identifiable market opportunities in the short run, due to their aggregate character. However, acting in combination with the increased minimum access commitments and general tariff reductions, they should result in an increase in world demand.

82. The opportunities presented by the Agreements on Agriculture and on Sanitary and Phytosanitary Measures are more than just a sum of the various commitments. The Agreement provides traders with an unprecedented degree of security and transparency which should be favourable to increased investment in agricultural production in developing countries.

83. The Agreement on Agriculture may complicate the situation of countries not WTO members; as long as they remain outside they will have no right to the minimum access quotas and will be entitled to current access quotas only if these have been incorporated in the Schedules; if they accede to the WTO, they will be denied the use of the tariffication approach.

84. Because of the considerable latitude allowed Governments in the implementation of their commitments with respect to domestic support and export subsidies, and to a certain extent market access, a more precise assessment of how the Agreement will impact upon the market opportunities of individual countries in specific products will only be possible after the notification by Governments of how they intend to implement their commitments becomes available.

85. Market access opportunities in the textiles and clothing sector can be expected to expand with the implementation of the Agreement on Textiles and Clothing through: (i) the "integration" programmes of progressive phasing-out of the MFA quotas; (ii) the increases in growth rates for the MFA quotas, including the elimination of quantitative limits in the application of the flexibility provisions; and (iii) the elimination of GATT-inconsistent non-MFA restrictions. The increases in growth rates for the MFA quotas could mean significant quota increases for many developing countries and countries in transition, particularly for those small and medium-sized exporters that had enjoyed relatively higher growth rates under the final MFA bilateral agreements. The improvement in the application of the flexibility provisions will also expand the export opportunities of developing countries in the markets of the major importing countries. Although it is difficult to determine the extent to which the GATT-inconsistent non-MFA restrictions are applied as the process of notifying them is now underway, the elimination of these

restrictions would no doubt bring increased transparency, security, and predictability to developing countries' access to the world market of textiles and clothing.

86. However, the MFA "integration" programme may not bring about any immediate trade liberalization. This is mainly due to the fact that no product integrated by the restraining importing members in the first stage had been subject to MFA restrictions. Furthermore, the implementing regulations of the major importing members provide that the integration of the most sensitive products be deferred as long as possible. According to the integration programme, only 51 per cent of the products covered in the Annex will be integrated into GATT 1994 over the ten-year transition period in the first three stages, leaving the balance of 49 per cent to be integrated on the very last day of the Agreement. This "end-loading" feature of the agreement calls into question the credibility of the integration programme, as it would make the process of structural adjustment more painful in the final stage. However, the United States approach of setting out the products to be integrated at each stage 120 days after the entry into force of the WTO Agreement should facilitate the process.

87. In the short run, export opportunities could even be reduced through frequent recourse to the transitional safeguard provisions, and it is important that countries use restraint in this respect. The linkage between the implementation process of the Agreements and other Uruguay Round commitments, including tariff concessions, particularly if unilaterally interpreted or defined, could give rise to disputes and pose a threat to the effective implementation of the Agreement by delaying the integration process. In addition, strict interpretation of the disciplines of the Agreements on Anti-dumping and on Countervailing Measures is required to resist the expected pressures for the application of these measures on textile and clothing products arising from the phasing-out of MFA and GATT-inconsistent non-MFA restrictions, once they have been integrated into GATT 1994.

88. While market access conditions for imports of industrial products into developed countries will be enhanced once the concessions and commitments agreed in the Uruguay Round are implemented, there is still room for further improvement. With regard to tariffs, developing countries may take advantage of their elimination or substantial reduction in a wide range of products. However, such concessions would be relatively more significant for products currently largely traded among developed countries themselves. Reductions of tariffs on products of interest to developing countries are less significant, and in many cases these products still attract high tariffs. Escalation of tariffs has been reduced considerably, but it could still hinder imports of products at higher levels of the processing chain, particularly those of actual or potential export interest to developing countries. A matter of concern to developing countries is the partial, or in some cases total, erosion of preferential tariff margins entailed by MFN tariff cuts; without the price advantages which allowed them to compete more effectively with imports from non-preference-receiving countries, some developing countries will find themselves in difficulty in maintaining market shares. In addition, the value of tariff preferences has been further eroded by the extension of regional free trade agreements which took place parallel to the Uruguay Round.

89. The Agreement on safeguards provides, inter alia, for the prohibition of "grey-area" measures and their phasing-out within four years after the entry into force of the WTO. The prohibition of voluntary export restraints and other "grey-area" measures has not only provided access opportunities but has eliminated a major cause of the perceived erosion of the multilateral trading system.

90. The agreements on textiles and agriculture are of considerable complexity and the details of their implementation by individual countries is far from clear at this time. While detailed notification and surveillance mechanisms are provided for in the WTO Agreements, developing countries and economies in transition, especially the least developed among them, may lack the institutional and administrative capacity to identify the specific opportunities at the country level and assess the impact of actions taken within the framework of the Agreements. To this end, they would require a process of continuous analysis which could include:

- In the agricultural sector, particular consideration of the impact of the allocation and utilization of tariff quotas, the impact of the export subsidy commitments on prices and trade flows, and the trade impact of the sectoral application of the commitments on domestic subsidies in order to identify opportunities resulting from the implementation of these commitments. One objective would be to promote a broad understanding of the economic impact of the operation of the Agreement which could facilitate future liberalization under the reform programme;

- With respect to textiles and clothing, an analysis of the scenarios of various stages of the integration programme, including the increases in growth rates, the use of transitional safeguards, domestic legislation of the major importing countries and their impact on sensitive products, small suppliers, etc. Among the objectives of this exercise would be that of minimizing the resort to transitional safeguards, especially against small suppliers, including LDCs, and facilitating an acceleration of the integration process so as to take their interests into account;

- The implications of the Agreements for non-WTO member countries, so as to facilitate their accession process and to ensure the improvement of their market opportunities in these areas;

- The identification of possibilities for improvements in GSP schemes designed in part to offset the erosion of GSP margins resulting from the Uruguay Round Agreements, through: the expansion of product coverage to the agricultural sector (including the possibility of additional preferential tariff quotas), textiles and clothing, and other sectors of interest to developing countries where high MFN rates prevail; the elimination of quantitative limitations; deeper cuts in GSP rates of duty; enhancement of measures for LDCs; the harmonization of rules of origin; and the setting up of objective criteria for graduation.

Notes

1. See UNCTAD, Trade and Development Report, 1994 (TDR/14), Part III.

2. The guidelines for the application of various provisions of the Agreement on Agriculture are laid out in the Note by the Chairman of the Market Access Group on Modalities for the Establishment of Specific Binding Commitments under the Reform Programme (MTN.GNG/MA/W/24), dated 20 December 1993.

3. For example, the category "coarse grains" covers 46 HS six-digit items.

4. The impact of the export subsidy commitments would be partially determined by the extent to which Governments resort to supply control in conforming to their quantitative commitments. See Stefan Tangermann, "An Assessment of the Agreement on Agriculture", in The New World Trading System: Readings, Paris, OECD 1994.

5. Irene Trela, "Agricultural Trade Liberalization in the Uruguay Round: Implications for Developing Countries", report prepared for the UNCTAD/Ford Foundation project on "The impact of the Uruguay Rund on developing countries", 1995 (mimeo).

6. Exemptions from tariffication fall into two categories: one relates to border measures maintained under balance-of-payments provisions or under other general, non-agriculture-specific provisions of the GATT and the WTO Agreements. In addition, non-tariff measures on products for which the "special treatment" provision of Annex 5 of the Agreement on Agriculture have been invoked do not have to be tariffied during the implementation period.

7. Countries have chosen to make use of a variety of tariff instruments in the tariffication process. The use of ad valorem tariffs is more prevalent among the developing countries, whereas the developed countries make greater use of specific duties. Since it is difficult to compare the level of tariffs among countries when they are not fixed in ad valorem terms, in the analysis presented here, ad valorem estimates have been made, where necessary, using the period (1986-1988) import unit values and exchange rates.

8. For example, the increase in access for peanuts is due to conversion of the United States quota for peanuts under section 22 of the Agricultural Adjustment Act (775 metric tons) into an enlarged tariff quota of 56 283 metric tons, and a tariff quota of 20,000 metric tons for peanut butter (previously not under quota). However, 78% of the tariff quota on peanuts has been allocated and bound to Argentina, and 72 % of the quota on peanut butter to Canada. See United States International Trade Commission, "Potential Impact on the United States Economy and Industries of the GATT Uruguay Round Agreements (Investigation No. 332-353)", USITC publication 2790, Washington, June 1994, p. II-38.

9. For example, the United States did not bind country tariff quotas on sugar, but it is possible that it continues to allocate quotas according to historical suppplies to the United States market. See USITC, op.cit., p. II-27.

10. Notably the rice quotas opened up by Japan and the Republic of Korea under the "Special Treatment" provisions of annex 5 of the Agreement on Agriculture.

11. The EU minimum access tariff quotas on certain meat items state that "imports under the Europe Agreements may be taken into account when implementing this quota".

12. For example, the United States has provided Uruguay and Argentina with tariff quotas of 20,000 tons on fresh chilled and frozen beef in the event that the United States determines that these products meet United States health standards. See Uruguay Round Implementing Legislation Section 404(d) and USITC, op.cit., p. II-10.

13. See GATT, "The results of the Uruguay Round of multilateral trade negotiations - market access for goods and services: overview of the results", Geneva, November 1994.

14. For details of the background of the MFA and its impact see "The Outcome of the Uruguay Round: An Initial Assessment", Supporting Papers to the Trade and Development Report, 1994, UNCTAD/TDR/14 (Supplement), pp. 107-110.

15. Ibid., pp. 116-126.

16. The textile and clothing products to which the Agreement applies are set out in the Annex and consist of approximately 800 tariff lines at six-digit HS level, including: (i) products of textiles and textile articles of Section XI of the HS Code (excepting the lines of raw silk, raw wool and raw cotton); and (ii) other products from certain other chapters of the HS Code which are currently included in the category systems of some of the MFA restraining countries.

17. Under the MFA, developed countries chose not to impose restrictions on imports from other developed countries with the exception of Japan, the "equity clause" in the MFA permitted the imposition of quotas on non-signatories who were deemed to be "taking advantage" of restraining countries"; however, such action could be challenged by non-signatories who were GATT contracting parties as breaches of Articles XI and XIX.

18. Such lines, as estimated, accounted for 47 per cent in Canada, 34 per cent in the EU, and 37 per cent in the United States of total imports in 1990. These volumes in the other restraining countries are 93 per cent in Austria, 81 per cent in Finland, and 83 per cent in Norway. Since Austria and Finland became members of the EU on 1 January 1995, their integration programmes would be covered by that of the EU. See Sanjoy Bagchi, "The Integration of the Textile Trade into GATT", Journal of World Trade, December 1994, Vol. 28, No. 6, p. 36.

19. The integration list of Canada was given at the HS 10-digit level. Since data for 1990 were not available, using data for 1991 at the HS 8-digit level might result in an over-estimate.

20. The list of the United States was given at the HS 10-digit level which enabled a considerable fine-tuning of product selection for the first stage integration.

21. Indeed, the United States Congress, in its Uruguay Round Agreement Act, has also required the Administration, in determining which products should be integrated, to ensure that integration of the most sensitive products be deferred until the end of the ten-year period. See the United States "Uruguay Round Agreements Act, Texts of Agreements, Implementing Bill, Statement of Administrative Action, and Required Supporting Statements", 103rd Congress, 2nd Session, House Document 103-316, Vol. 1, U.S. Government Printing Office, Washington: 1994, p. 171.

22. Ibid., p. 370.

23. The secretariat has estimated that the proposed US plan of integration in the second stage and third stage would represent 11 per cent and 9 per cent of the total import value in 1990 respectively. As a result, the first three stages of integration will leave more than 70 per cent of the value and nearly 50 per cent of the volume of 1990 imports to the United States till the very end of the ten-year transition period.

24. See GATT, "Increase in market access resulting from the Uruguay Round", 12 April 1994, table 5.

25. See, for example, United States International Trade Commission Publication 2790, Potential Impact on the U.S. Economy and Industries of the GATT Uruguay Round Agreements, June 1994, p. IV-3.

26. The reductions in trade-weighted tariff averages range from 7 per cent in Zimbabwe to 52 per cent in India. Argentina, Brazil, Chile, Colombia, Costa Rica, El Salvador, Indonesia, Jamaica, Mexico, Peru, Uruguay and Venezuela have bound all their tariffs.

27. For example, Thailand recently decided to cut its tariffs on nearly 4,000 tariff lines, which would bring import duties of the country down from 100 per cent to a maximum of 30 per cent by 1997; see Financial Times, 29 December 1994. As part of its Uruguay Round commitments, India recently also agreed to reduce tariffs on various textile items and to remove all yarns, fibres, and some industrial fabrics from its restricted list of imports; see International Herald Tribune, 3 January 1995.

28. Article 6:1 of the Agreement on Textiles and Clothing, "The Results of the Uruguay Round of Multilateral Trade Negotiations, The Legal Texts", published by the GATT Secretariat, Geneva, 1994, p. 94.

29. See the United States "Uruguay Round Agreements Act, Texts of Agreements, Implementing Bill, Statement of Administrative Action, and Required Supporting Statements", 103rd Congress, 2nd Session, House Document 103-316, Vol. 1, U.S. Government Printing Office, Washington: 1994, pp. 773-4.

30. These include arrangements under the Lomè Convention in the EU market, and 9802 and Guaranteed Access Level (GAL) programmes in the market of the United States.

31. Product categories for which the elimination of tariffs was agreed are pharmaceuticals, construction equipment, medical equipment, steel, beer, furniture, farm equipment, distilled spirits, and pulp and paper.

32. In the European Union and the United States, such measures have covered iron and steel products, motor vehicles, machine tools, electrical and electronic products, footwear, textiles and clothing (outside the MFA) and other miscellaneous products.

33. See GATT, "The Results of the Uruguay Round of Multilateral Trade Negotiations", November 1994.

34. Ibid., appendix tables 6 and 14.

35. See Trade and Development Report 1991, chapter III, and Trade and Development Report 1993, annex 2.

36. For a detailed discussion of these issues, see Trade and Development Report, 1994, Part Three, Chapters II and III, and Trade and Development Report, 1994, Supporting Papers, Chapters II-IV.